“Game Theory” Overview
• Oligopolies display strategic pricing behavior
  o Mutual interdependence
  o Collusion
  o Incentive to cheat
  o Prisoner’s dilemma
    ▪ To help oneself, both participants find themselves in a worse state because they do what is best for themselves and would have had a better outcome if they had cooperated with each other in the decision-making process
    ▪ Instead if you take in your own interests and good of the group to work together in a competitive environment and then everyone gets their way
• Game Theory Overview
  o 2 competitors
  o 2 price strategies
  o each strategy has payoff matrix
  o greatest combined profit
  o independent actions stimulate a response

Collusion (illegal set prices with competitors)
  o Cartel
    ▪ Overt collusion – OPEC
    ▪ Covert collusion – NFL case
  o Joint-profit maximization

Obstacle to Collusions
• demand and cost differences
• number of firms
• cheating
• recession
• new entrants
• legal obstacles

Oligopoly and Advertising
• prevalent to compete with product development and advertising
price discrimination: charging different buyers different prices
  o prices aren’t based on cost differences (consumers have different willingness to pay)
  o